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**潼關黃金集團有限公司**  
**Tongguan Gold Group Limited**

*(Incorporated in Bermuda with limited liability)*  
**(Stock Code: 00340)**

## **FURTHER INFORMATION ON THE DISCLOSEABLE TRANSACTION IN RELATION TO ACQUISITION OF THE TARGET COMPANY INVOLVING THE ISSUE OF CONVERTIBLE BOND UNDER GENERAL MANDATE**

Reference is made to the announcement of Tongguan Gold Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 27 September 2024 (the “**Announcement**”) in relation to the acquisition of the Target Company. Capitalised terms used herein, unless otherwise defined, shall have the same meanings as those defined in the Announcement.

In addition to the information disclosed in the Announcement, the Board would like to provide the Shareholders and potential investors of the Company with additional information on the Acquisition:

### **Basis of Consideration – PE Ratios of Comparable Companies**

In determining the Consideration, the Company has taken various factors into account. The Company has identified four comparable companies in the market (the “**Comparable Companies**,” each a “**Comparable Company**”), based on the following selection criteria:

- **similar business nature:** the principal businesses of the Comparable Companies include mine engineering, development, construction, and other mining operation related services, which are of a similar nature to Xi'an Hongshang;
- **same geographical location:** the principal business activities of the Comparable Companies are mainly conducted in the PRC, or their PRC operations are a significant component of their businesses;

- **the public element:** the Comparable Companies are companies listed on the Shenzhen Stock Exchange, Shanghai Stock Exchange, and the Stock Exchange, respectively; and
- **financial information:** the financial information of these Comparable Companies is sufficient and publicly available.

Based on the above criteria and to the extent that information is publicly available, the Board considers that the Comparable Companies are representative. As at the date of the Announcement, the Company was not aware of any other companies that satisfied the above criteria to become a “Comparable Company”.

### **Profit Guarantee and Consideration Adjustment**

As disclosed in the Announcement, the amount of the Consideration is equivalent to the Principal Amount, with each Convertible Share priced at RMB1.0. Accordingly, the number of Convertible Shares corresponds to the amount of the Consideration. Without any adjustment to the Consideration, one-fifth of the Convertible Shares corresponding to the Principal Amount (i.e., 6,000,000 shares) will become exercisable after the expiration of each 12-month Period. Thus, any adjustment to the number of Convertible Shares will be made in accordance with the adjustment mechanism for the Consideration. Specifically:

- If the Actual Annual Profit is below the Annual Target Profit in any 12-month Profit Guarantee Period, the number of Convertible Shares exercisable for that period will be adjusted to:

$$6,000,000 \text{ shares} \times \frac{\text{Actual Annual Profit}}{\text{Annual Target Profit}}$$

If Xi'an Hongshang is loss-making in any 12-month Profit Guarantee Period, the Vendor will not be entitled to convert any Convertible Shares for the corresponding 12-month Period.

- After the expiration of the Holding Period, if the Actual Total Profit (including loss-making in any 12-month Profit Guarantee Period) is below the Total Target Profit, the total number of Convertible Shares will be adjusted to:

$$30,000,000 \text{ shares} \times \frac{\text{Actual Total Profit}}{\text{Total Target Profit}}$$

Accordingly, after the Holding Period expires, the number of exercisable Convertible Shares will be the total adjusted number of Convertible Shares minus those have already been converted. If the final 12-month Profit Guarantee Period results in a loss causing the number of Convertible Shares exercised previously to exceed the total adjusted number of Convertible Shares, the Vendor will pay the Purchaser the difference in cash for the excess converted. If, after the Holding Period expires, the total number of Convertible Shares exercised by the Vendor is less than 30,000,000, the shortfall will be cancelled by the Company.

In determining the Actual Annual Profit and the Actual Total Profit and according to the Agreement, items that are outside the ordinary and usual course of business of Xi'an Hongshang were not excluded. As at the date of the Agreement, Xi'an Hongshang does not operate any businesses outside its ordinary and usual course of business.

### **Target Profit Adjustment – Determination of the Target Excavation Amount**

The business relationship between the Company and Xi'an Hongshang commenced in 2017. The Company considers that the Agreed Annual/Total Excavation Amount is reasonably justified and achievable based on the following factors:

- (a) the historical Excavation Amount, composed both the amounts of excavation and mining, and the Agreed Annual Excavation Amount is similar to the historical amount for the year ended 31 December 2023. The detailed information of the amounts of excavation and mining for the two years ending 31 December 2023 is set out below:

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2023</b>	<b>2022</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount of excavation work	18,688	31,323
Amount corresponding to the mine production	<u>157,402</u>	<u>112,679</u>
Total	<u><u>176,090</u></u>	<u><u>144,002</u></u>

The increase in the amount corresponding to the mine production in 2023 was primarily due to the resumption of mining schedule. This resumption followed the gradual relaxation of COVID-19 prevention and control measures starting from the end of 2022, which were completely lifted afterwards, and Mainland China's economy showed signs of recovery from the impact of the COVID-19 pandemic.

- (b) the Company possesses sufficient mineral resources and reserves to fulfill the Agreed Annual/Total Excavation Amount. Moreover, considering the economic recovery signs mentioned above and the recent market prices of gold, coupled with the benefits of the Acquisition (including the synergy effects as detailed in the Announcement), the Company is optimistic about the increasing market demand for the Group's gold mining operations moving forward;
- (c) recently, Xi'an Hongshang acquired new equipment for its excavation and mining works, which is expected to enhance its production capacity and reduce production costs; and
- (d) the Company's confidence in Xi'an Hongshang's performance, particularly the quality and efficiency demonstrated during their past cooperation.

The Agreement was established after arm's length negotiations between the Vendor and the Purchaser. On one hand, the Company provides safeguards for its interests through the consideration adjustment mechanism, and on the other hand, it thoroughly considered the factors (a) to (d) above when adopting the target profit adjustment mechanism based on the Excavation Amount. Additionally, the Agreement provided that, for the purpose of avoiding uncertain risks, if Xi'an Hongshang is required to suspend production due to a case filed by competent authorities for investigation or suspension of business for rectification as a result of violation of laws and regulations, or if Xi'an Hongshang is imposed penalties by the competent authorities or for other reasons attributable to Xi'an Hongshang itself, leading to the failure to realise the Agreed Annual/Total Excavation Amount, the target profit for the relevant period shall not be adjusted in accordance with the Agreement.

In view of the above, the Company considers that the mechanism of target profit adjustment based on the Excavation Amount is fair and reasonable and in the interests of the Company.

By Order of the Board  
**Tongguan Gold Group Limited**  
**Yeung Kwok Kuen**  
*Executive Director and Chief Financial Officer*

Hong Kong, 17 October 2024

*As at the date of this announcement, the board of directors of the Company comprises Mr. Jiang Zhiyong, Mr. Shi Xingzhi, Mr. Shi Shengli, Mr. Yeung Kwok Kuen and Ms. Feng Fangqing as executive directors, and Mr. Chu Kang Nam, Mr. Liang Xushu and Mr. Leung Ka Wo as independent non-executive directors.*